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NECESSITY FOR A GOLD COMMISSION

By J. PEASE NORTON

*Assistant Professor of Political Economy, Yale University and Secretary Section
I, American Association for the advancement of Science.*

TO WHICH IS APPENDED EDITORIAL EXTRACTS FROM "MOODY'S MAGAZINE"
WITH RESPECT TO THE DEPRECIATING VALUE OF GOLD AND ITS IN-
FLUENCE ON THE FACTORS OF INDUSTRY, COST OF LIVING,
AND SECURITY AND COMMODITY VALUES.

Reprinted, by permission, from
MOODY'S MAGAZINE for September, 1907

NECESSITY FOR A GOLD COMMISSION

Present Disturbed Conditions, Financial, Industrial and Social,
Due to Inflation, Caused by Gold Depreciation—Congress
Should Appoint a Commission to Study Problems Presented

By J. PEASE NORTON

ASSISTANT-PROFESSOR OF POLITICAL ECONOMY YALE UNIVERSITY, AND SECRETARY
SECTION I, AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF SCIENCE

THE necessity for a thorough investigation by a congressional commission covering the economic conditions governing the production of gold, the cost of production, the probable output of gold for the next decade, the supplies of money, as well as the question of adequate currency supplies, and the course of who sale and retail prices with recommendations as to remedial legislation, is again emphasized by the extraordinary conditions now prevailing throughout the business world. If the present extraordinary conditions are largely the results of an overproduction of the precious metal, gold, the gravity of the situation demands early and adequate action by congress.

Disturbed Conditions Due to Inflation.

The extraordinary conditions prevailing at the present time—on the one hand, violently declining security prices, time discount rates at record figures, political attacks threatening every form of business activity through its effects upon that subtle element which for a better name has been termed in its disastrous aspect "lack of confidence"; and, on the other hand, a continued advance, but slightly checked as yet in commodity prices, an increase in the cost of living which is becoming grievous to the laboring and middle classes, showing its results in strikes and discontent and, above all, the development of a radical, impatient spirit

among the populations of the earth—all these are characteristics of an era of great inflation.

In nearly all periods of inflation, arising from progressive changes in one direction of the standard of value, whether gold or silver, these characteristics have been marked. For readjustment of prices forces readjustment of wages; and, what is even more disturbing, readjustments of all calculations of probable profits in the various lines of business, a veritable setting at naught of business judgment which is gained by business men, not by a superior knowledge which foresees the future, but by that slow selection by trial and failure personally among men, some of whom succeed notably because of a combination of conditions and qualities the very nature of which they themselves are often totally in ignorance.

Calculations Upset.

The great condition fundamental to prosperity is undoubtedly the natural resources, agricultural and mineral of the country. But beyond this condition of natural wealth, which is the ultimate basis of great prosperity, there is a subjective factor equally essential. In its broadest aspect, it is co-operation among men and this factor of prosperity finds its expression in the great pursuits of commerce which, in turn, depend vitally upon the transmission of intelligence, the

transportation of commodities and the delicately adjusted mechanisms of exchange and credit.

To disturb the conditions of commerce—whether by obstructing the free transmission of intelligence, by impeding the progress of transportation or by upsetting the money and credit system in any of its details, must tend in some degree to injure the "calm health of nations." Especially is this so in connection with changes in the purchasing power of the standard of value, money, such changes producing their most vicious effects in upsetting the calculations of business men. Working by a skill acquired through the use of averages, taught by an experience covering several years, business men, in some lines, have awakened to find losses where they supposed profits were assured. On the other hand, in other occupations, men have discovered, over night, that out of calculations promising moderate returns, huge and unexpected profits have resulted. Unable to calculate nicely, whole industries have become over-extended. Over-production has resulted, because sufficient allowance has not been made for the reduced purchasing power of the population on account of the increase in cost of living. In addition to this, costs have been under calculated because of the wage element which has necessarily advanced, although probably not to an extent commensurate with the increased cost of living.

Importance of Gold Depreciation.

The true condition of affairs was, perhaps, first suggested by Mr. Robert Goodbody; but the great importance of the depreciation of gold failed to impress the business mind until the publication of a series of articles in MOON'S MAGAZINE, which were afterwards edited

for a symposium under the title of "The Gold Supply and Prosperity," by Mr. Byron W. Holt. In 1905, Mr. Frank A. Vanderlip wrote:

When we remember that in 1885, the production of gold was but \$115,000,000; when we remember, further, that the entire monetary stock in the world is about \$5,700,000,000, we can calculate that the output for the mines in the next fourteen years promises to equal a total as great as the present monetary stock of gold. These figures are startling. They perhaps suggest the possibility of a disturbance in values.

How seriously values have been disturbed, the business world now recognizes. Yet, as Mr. Holt succinctly states:

There can be no saturation point for gold, when it is the standard of value; no point where the supply satisfies the demand. Before the saturation point is reached, prices rise and the saturation point recedes. Like the bundle of oats on the end of the wagon pole in front of the donkey, the demand for gold always outruns the supply. An increase of supply results in increased prices. It has been seen that a rapidly increasing output and supply of gold does, for a time at least, give an artificial stimulus to industry that has the appearance of genuine prosperity. That it is not real and wholesome, because not founded on a just distribution of products has been shown. In fact the prosperity superinduced by rising prices has many dark sides to it at all times. Some of these are: speculation in stocks, commodities and real estate; increased cost of production and of living; labor troubles; general unrest; inability of workers to purchase at the high prices asked, the total products offered and needed; glutted markets; closed mills; and, if an increase of gold is not always forthcoming, a decline in prices that will result in depreciation and panic.

The phenomena which these financial experts predicted have since developed to some extent. The seriousness of the disturbance and its far-reaching effects have not yet begun to be appreciated.

Grave Conditions.

If the country today is standing on the verge of one of the greatest commercial and industrial crises in its history, only by clearly appreciating the extreme gravity of the conditions can we hope to escape the most disastrous effects. Already, the financial markets are approaching a chaotic state. The stock market, which represents so accurately the prosperity and hope of the investing community, now, with demoralization in the ascendancy and hope abandoned, is really not at all the weakest point. Stocks are made for purposes of oscillation. Bonds and land mortgages are not. A 60% decrease in the value of shares is borne with more or less fortitude by the holders. But when bonds and land mortgages decline 30%, it generally means bankruptcy for the corporation. The weak points in the situation are five.

The real estate boom has collapsed in New York and vicinity. This collapse will spread thruout the country. There is no short selling in real estate speculation. Millions of dollars will be lost in the contraction which will follow. Many banks of the \$50,000 class in the west, which loan indirectly on mortgages, will, necessarily, go to the wall. Nothing can check the real estate collapse. It must be allowed to take its course.

Losses of Bond Syndicates.

Next to real estate is the situation of the underwriting syndicates. Hundreds of millions of dollars of bonds are held under underwriting agreements by the banks and by the officers of the banks, and the unpleasant feature is that many of these syndicates have been twice extended. The conditions of probable profit prevailing, two and three years ago when these syndicates were formed, were far different from the conditions

prevailing today. The ratio of capitalization was then, in many cases, 150% of cost or value of property for bonds alone. Bonds could at that time be sold to the insurance companies and to the banks. It is doubtful now whether the bonds, especially of the specialties, can be marketed without reorganization of the corporations.

Legal Conditions Changed.

The reasons for the extraordinary conditions are two:

(1) The legal conditions have changed within two years. Often 40% of the value has disappeared because the government frowns upon corrupt corporation practise. The alliance between railroads and industrial concerns in the old days made many of the industrial railroads extremely prosperous. The firm course taken by the government destroys this value for all time. Consequently, a large value which was then reckoned upon has been eliminated. The government is, of course, to be congratulated upon enforcing the laws, and it is probable that the wealth destroyed will be many times returned in the advantages hitherto denied competing companies, the whole resulting in a great gain for the consumer. But this does not help the predicament of those unfortunate persons who are tied hand and foot, by the underwriting contracts. They must face their losses, losses which are growing continually greater with the lapse of time. For, in addition to the changes in the legal condition, the investors have learned to avoid bonds as an investment.

Purchasing Power of Money Changed.

(2) The depreciation of gold has made bonds a very disastrous form of investment. For the investor who purchased, at par for \$1,000, a five-year bond, paying 4%, five years ago, now

finds that the \$1,000 which is returned to him will only purchase \$600 worth of commodities on account of the rise in prices due to the fall in the value of gold. It is probable that this condition will prevail for several years.

How extreme are the losses of those who possess bonds few even now fully realize. A man who purchased, for 111, a New York Central 3½% bond now finds, at the end of a few years, his bond worth only 90 in the market, a loss of nearly 25%. In addition to the loss, \$90 will only purchase now what \$55 would when he purchased at 111. As a result, he has lost, measured in purchasing power, one-half of his total capital. Few investments in stocks would show a worse result. What is true of New York Central 3½'s is true of practically the entire bond market.

Banking and Credit Conditions Bad.

In addition to the plight of the underwriting syndicates, banking conditions are notoriously weak in the United States. At New York, the bank statements have ruled, for this time of year, the weakest in 16 years, with the exception of 1893, the crisis year. Moreover, time discount rates are nearly the highest of record, at this season of the year.

The rate of foreign exchange continues to rule high, and any fall in discount rates at New York is immediately reflected by rising exchange rates, resulting in gold exports, thereby holding time discount rates at a high level. In 1903, a parallel year, the foreign exchange rate ruled high until November, and even then fell only to 4.84½.

Thruout the world, the credit markets are greatly strained. Already financial difficulties have arisen in Egypt, and more recently in Japan. The continually occurring new low records for

British consols indicate not only the credit strain, but also the tremendous demand for more capital at high rates. On account of the intimate connection of the world's financial markets, one danger which confronts the United States situation is that some financial accident will occur at one of the financial centers abroad, precipitating disturbances at many markets and spreading to the United States.

Parallel Conditions in 1857.

An historical parallel to the present situation, remarked by MOODY'S MAGAZINE, is to be found in 1857. Fifty years ago the large increases in gold production in 1849 provoked a period of inflation, over-speculation, and severe credit strains, finally culminating in the panic of 1857, which commenced in the last two weeks of August, 1857. Dating the present boom from 1899, eight years have now passed without a very serious trade reaction.

When we consider that the alarming conditions prevailing are such as are common in periods of inflation caused by derangement of the standard of value, that we stand upon the threshold of a political election with the nominations of presidential candidates less than nine months remote, that a spirit of unrest, social disturbance and class discontent is rampant in the land, the mere possibility of thousands of men out of work in our cities, during the next 18 months contributing to the growth of the radical spirit, such as is apt to occur in times of great crises, is not to be captiously ignored. We should endeavor to correct the fundamental causes accountable for these conditions.

Work For a Gold Commission.

Assuming that the seriousness of the conditions developed by an over-produce

tion of gold has been demonstrated by the occurrence of the economic phenomena which such writers as Vanderlip and Goodbody, long predicted, in advance, the really vital question arises, along what lines should a congressional gold commission work?

The important work of such a commission should embrace, it would appear, to advantage—

(i) The collection of reliable information bearing upon these questions.

(ii) The recommendation of remedial legislation for the present extraordinary condition of affairs.

(iii) Co-operation with commissions of other countries; for this problem requires international action for its solution.

(iv) Recommendations for a comprehensive reform of our entire monetary and currency systems, which is sorely needed.

(v) Recommendations for a systematization of our credit system, and a national organization of the clearing houses of the country.

(vi) Publication of a forecast for the immediate future in order that business men may have a rational basis for their operations, so far as the further depreciation of money is concerned.

For it is well agreed that in all lines of our social mechanism infinite progress at all points is continually required. Progress proceeds by small increments, consisting largely in the collection and dissemination of the truth regarding the problems as generally presented. The calmly reasoned recommendations of a commission of experts are vastly to be preferred to casting this question into the throes of a political campaign. In the swift increase of our populations, too much care to anticipate the requirements of tomorrow cannot be taken; and when the requirements of yesterday are producing the calamities of today, action in the immediate future is not only the part of prudence, but it also possesses the virtues of both wisdom and national duty.

EDITORIAL EXTRACTS

The leading feature of the first number of MOODY'S MAGAZINE, issued in December, 1905, was its Gold Symposium, participated in by fourteen of our brightest economic minds and greatest experts on money and banking. The editor then expressed the opinion that the depreciating value of gold was responsible for the very great and world-wide rise in prices and the high and rising rates of interest; that it would result in lower prices for "bonds and other obligations drawing fixed rates of interest or income," and for the stocks of most railroad and other public service corporations; that it would result in higher prices for most real property and for the "stocks of manufacturing corporations owning natural opportunities for production."

As was expected, these conclusions, views and theories were not warmly received, either by its readers or by the financial and economic world in general. Since 1905, however, as was also expected, the ideas then expressed have been accepted by a rapidly growing number of financial and economic writers and thinkers. What was then ridiculed as mere theory is now regarded as sound economic doctrine. The course of events, since 1905—rapidly increasing supply of gold, rapidly rising prices and interest rates and rapidly declining prices of bonds and stocks—has been so nearly along the lines then suggested that scarcely a line or word of what was said (by MOODY'S MAGAZINE) editorially, nearly two years ago, would have to be modified to make it fit what has since happened.

In its issue of September, 1907, MOODY'S MAGAZINE said editorially:

Gold Solution At one time, it was said that "all roads lead to Rome." It would be incorrect, today, to say that all economic, political and social troubles are the outcome of the increasing supply of gold; but the investigations of the next ten years are likely to trace many of these troubles to this source. Comparatively few students and writers have, as yet, either grasped the many new and important problems presented by organized society or found a satisfactory explanation for them. So many new and unexpected troubles are, however, constantly and rapidly appearing that thousands of anxious minds are casting about for the cause or causes of these new conditions. Many of them believe that they have found it.

It is, perhaps, safe to say that there are today a thousand men pointing to the gold supply as this cause for every man who was pointing in that direction two years ago. This subject is now being widely discussed in magazines and newspapers. Soon it will be in politics and will be the tool of designing politicians. This will follow of necessity. For not only do the problems presented call for political action, but money and the standard of value are, in most countries, the products of legislation.

Adams Says Mr. Frederick Upham we should Adams, in the August issue of *Success*, deals some solar plexus blows to gold. He asks those who think that "nature intended gold to be the medium of exchange" to glance at the following figures:

YEARLY PRODUCTION OF GOLD:

1500.....	\$4,000,000
1600.....	6,000,000
1700.....	7,000,000
1800.....	12,000,000
1900.....	262,000,000
1907.....	425,000,000

He holds that these figures are eloquent against gold. They show that, until 1800, it had been plodding along with a fairly steady increase in accumulation and had behaved itself and performed its proper functions. After 1800, the flood of gold began. It has since become a deluge. These figures demonstrate, says Mr. Adams, "that gold is absolutely worthless as a standard of value," that its breakdown is inevitable and that it would have occurred long ago had not the great bankers of the world conspired with their governments "to take action which would postpone the breakdown of the standard on which was reared the stupendous edifice of debt and credit." Mr. Adams quotes Mr. John D. Rockefeller as saying:

It seems to me that one of the most startling conditions this country must face is the overproduction of gold.

A Gold Commission In view of the havoc that gold is now playing with prices, interest rates, security and realty values, and with political, social and religious institutions, and in view of the unjust distribution of wealth which the dishonest gold standard is promoting thruout the entire world, it is certainly advisable for all civilized nations to take concerted action to remedy the many evils of the gold standard, if possible, and, if impossible, to substitute a better standard, if one can be found. The first step to such action is for this, or some other nation, to appoint a commission to investigate the entire subject and, if deemed advisable, to call a world conference.

Dr. J. Pease Norton of Yale University, in an article in this number on the "Necessity For a Gold Commission," has given many excellent reasons why this country should at once take action

on this matter. He has told us briefly of the gravity of the situation and has suggested work that should be undertaken by such a commission. We believe that our readers know something of the importance of this subject and that they will carefully read his article. We wish we were as certain that congressmen and senators would consider this subject

of importance. This they are not likely to do until prodded by their constituents. Politicians are seldom statesmen. They are leaders, with their ears to the ground. They seldom move in any direction until they hear or see the people going that way. We hope our readers will make a noise in the direction of a gold commission.

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The National Financial Monthly

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